

## CalPERS and CalSTRS Pension Benefits



## California Retirees Leave Substantial Economic Footprint on California



### Introduction

In recent years, defined benefit plans have come under attack. Employer contributions to pensioners have been characterized as a “drain on the taxpayer” that government can ill afford. A recent study performed for the California Public Employees’ Retirement System (CalPERS) and the California State Teachers’ Retirement System (CalSTRS) shows for the first time that retirees contribute significantly more to the California economy. In fact, California’s public servants who receive pensions from the nation’s two largest pension funds represent a powerful source of economic strength for the State of California contributing billions to the economy, creating hundreds of thousands of jobs, and generating millions of dollars in tax revenues locally and statewide.

### Key Findings

The study released by the Applied Research Center, California State University, Sacramento measures the economic impacts created by the payment of retiree benefits. The money CalPERS and CalSTRS pay retirees circulates through the economy creating an economic impact. This impact is multiplied to create a broader stimulus to the economy and a “Footprint” on California.

- More than \$13.7 billion is paid annually to 675,000 retirees who live in California.
- These pension payments generate an additional \$7 billion in economic activity each year.
- Combined, the pensions and the ripple effect of spending those pensions contribute \$21 billion in overall economic activity.
- This economic activity creates more than 139,000 jobs with an annual payroll of \$4.8 billion — more jobs than in the biotechnology and trucking industries, respectively.
- The CalPERS-CalSTRS “Footprint” exceeds the impact of the Forestry and Fishing Industry (\$6.44 Billion) and is nearly equal to that created by the Hotel and Accommodations Industry (\$10.3 Billion). It is more than the total value of export goods to four of California’s large trade partners.
- Every taxpayer dollar invested for pensions at CalPERS generates a return of \$8.55 to the California economy. Each dollar invested with CalSTRS generates \$6.71.
- State and local governments also gain revenues. They gain \$1.4 billion in revenues from payments and from the spinoff of payments — more than 1 percent of the state’s \$103 billion general fund.

## Summary

CalPERS accepts funds from public agency employers and their employees, and then invests those dollars to provide a secure retirement at the end of these employees' careers. CalPERS earned a 9.3<sup>1</sup> percent rate of return during the past decade. These earnings pay an average of 76 percent of the retirees' monthly checks.

CalSTRS fills a similar role for many California education agencies, accepting moneys from school district employers and from their teaching staff, as well as a smaller amount from the State of California, and then investing those dollars to provide a secure retirement at the end of these teachers' careers. CalSTRS has achieved a 9.1<sup>1</sup> percent rate of return over the past decade, with an annual rate of 13.21 percent in 2006. These earnings pay almost 75 percent of the retirees' monthly checks.

One consequence of this steady performance by both funds is that retired teachers, firefighters, police, state scientists, school bus drivers and dozens of other occupational groups have become a significant economic engine in their communities through spending their income payments, and the resulting "economic spin-off."

## About CalPERS and CalSTRS

- During the first months of 2007, the combined assets of the top two US public pension funds grew to an all-time high of \$391.6 billion.
- Between the two, the retirement funds served 2,285,524 active, inactive and retired members, making a total of 649,123 payments to retirees, survivors and disabled teachers and public employees during the Fiscal Year 2005/2006.
- In 2006, CalPERS made payments to 389,071 retirees living in the State (85.3 percent of the total 468,674 beneficiaries) and those payments account for \$7.737 billion out of a total payment of \$9.068 billion paid to all retirees, survivors and disabled workers. CalSTRS payments to retirees living in the State are 87.9 percent of the total amount paid out, about \$6.03 billion to 285,085 beneficiaries.
- Over the past decade, CalPERS has earned at an average rate of 9.3 percent annually, and CalSTRS at 9.1 percent. On account of that performance, investment earnings account for 75% of teacher retirement paid out by CalSTRS, and (on average of 2,950 different employers), 76 percent of public employee retirement paid by CalPERS.
- FY 2005/2006 total net *earnings* on investment pools maintained by the two funds combined were \$20.8 billion for CalPERS and \$14.26 billion for CalSTRS, a total of roughly \$35 billion.

## Joint Findings on the Annual Impacts of Benefits Payments

- Combined benefit payments in 2006 of \$13.766 billion support a total output (the ripple effect of business and government revenues as spending from those benefit checks works its way through the California economy) of about \$21.063 billion. This amount of economic output totals more than the total value of export goods to trade partners such as Canada, Mexico, Europe, or Latin America (in 2005). During this period, only Asia, of all California trading partners, received exports of greater total value.
- This economic activity supports a total of 138,974 jobs, with total compensation of around \$4.823 billion. By comparison:
  - The new biotechnologies industry supplies a total of 60,000 jobs in the state.
  - The truck transportation industry supplies a total of 121,171 jobs.
- The total impact by the two funds on value added to the state's economy by business activities, the Gross State Product, is about \$10.252 billion, about 0.65 percent of the \$1.556 trillion GSP. According to the Bureau of Economic Affairs (comparing to 2004, the last year with complete data available) the two funds add nearly as much to the state's economy as the hotel and accommodations industry (\$10.377 billion), or the metal fabrication industry (\$9.959 billion),

<sup>1</sup>Calendar Year Return

or more than forestry and fishing (\$6.440 billion).

- On average, each dollar “invested” by the State of California or local government agencies with CalPERS returns \$8.55. Each dollar invested by the State of California and local school districts in the CalSTRS retirement pool yields a return of about \$6.71 to the California economy.

- State and local governments gain \$1.358 billion in revenues as a result of payments and the ensuing spin-off to California’s economy from the two agencies’ income benefit payments to retirees. This amount is equivalent to more than 1 percent of the 2007 \$103 billion state general fund budget. The same agencies gain a total of \$778,850,165 in 2006 from spending related

to CalPERS retirement income payments in California, a yield of \$0.56 in revenues from each dollar “invested” in the CalPERS retirement pool. State and local governments gain \$606,960,115 per year in new revenues as a result of CalSTRS retirement income payments in California. Each employer dollar “invested” yields \$0.44 in government revenues.

### Summary of economic benefits resulting from CalPERS and CalSTRS 2006 combined benefit payments

State	Benefit Payment	Total Output	Value Added	Employee Compensation	State and Local Government	Employment
California	\$13,766,575,181	\$21,064,637,784	\$10,252,027,366	\$4,824,224,492	\$1,385,810,280	138,974

Note: State and Local Government Taxes show only tax generation, not distribution to local government. Any differences due to rounding.

### California sector distribution of economic benefits created by CalPERS and CalSTRS combined benefit payments

NAICS Sector	Sector Name	Total Output	Employee Compensation	Employment
11	Agriculture, Forestry, Fishing and Hunting	\$145,963,593	\$19,972,591	1,251
21	Mining	\$53,797,751	\$7,862,814	120
22	Utilities	\$300,324,434	\$39,435,323	367
23	Construction	\$101,279,729	\$34,540,365	827
31-33	Manufacturing	\$2,039,035,063	\$302,795,182	5,680
42	Wholesale Trade	\$1,007,467,360	\$344,543,758	5,863
44-45	Retail Trade	\$1,899,243,747	\$673,940,057	23,983
48-49	Transportation and Warehousing	\$440,013,304	\$167,243,335	3,833
51	Information	\$635,335,082	\$132,046,722	1,745
52	Finance and Insurance	\$1,601,562,082	\$495,129,496	7,419
53	Real Estate and rental and Leasing	\$892,659,324	\$80,645,745	4,937
54	Professional, Scientific, and Technical Services	\$786,682,813	\$298,499,013	6,484
55	Management of Companies and Enterprises	\$201,694,656	\$93,381,061	1,061
56	Administrative and Support	\$378,762,080	\$162,100,411	6,408
61	Educational Services	\$226,875,042	\$124,807,904	4,433
62	Health Care and Social Assistance	\$2,156,643,348	\$1,015,320,429	25,150
71	Arts, Entertainment, and Recreation	\$269,721,459	\$100,453,293	4,384
72	Accommodation and Food Services	\$1,034,653,377	\$343,318,670	19,304
81	Other Services (except Public Administration)	\$794,346,651	\$285,664,517	14,316
92	Public Administration	\$2,347,061,650	\$102,523,806	1,409

Note: Model adjusts for intra-county trade. Any differences due to rounding.

## California generation of economic benefits from CalPERS and CalSTRS combined benefit payments

California-Statewide	Direct	Indirect	Induced	Total
Total Output	\$13,766,575,181	\$3,516,298,451	\$3,781,764,152	\$21,064,637,784
Value Added	\$6,079,213,757	\$1,934,015,443	\$2,238,798,166	\$10,252,027,366
Employee Compensation	\$2,746,716,449	\$1,014,486,022	\$1,063,022,021	\$4,824,224,492
Employment	83,616	24,585	30,773	138,974
State and Local Taxes				\$1,385,810,280

Note: Any differences due to rounding.

## Impact of each employer dollar “invested” in CalPERS

	Employer Investment (11.7%)	Total Impact (100%)
Total economic impact from each employer dollar invested	\$1,385,128,251	\$11,838,703,000
<b>Return on Investment to the California Economy</b>		\$8.55
Total government revenues earned by each employer dollar invested	\$1,385,128,251	\$778,880,165
Return on Investment to State and Local Government Revenue		\$0.56

## Impact of each taxpayer dollar “invested” in CalSTRS

	Schools (10.2%)/State (4.7%)	Total Impact (100%)
Total economic impact from each taxpayer dollar invested	\$1,079,434,344	\$9,225,934,563
<b>Return on Investment to the California Economy</b>		\$6.71
Total government revenues earned by each Taxpayer dollar invested	\$1,079,434,344	\$606,960,115
Return on Investment to State and Local Government Revenue		\$0.44

For more information on the study “The Combined Economic Impacts in California of CalPERS and CalSTRS Retirement Income Benefit Payments” visit [www.calpers.ca.gov](http://www.calpers.ca.gov).